

A FOREIGN ECONOMIC POLICY FOR THE WEST TOWARDS THE SOVIET UNION

I THE OPPORTUNITY

1. An effective policy of economic warfare against the Soviet Union might:
 - a) persuade the Soviet leaders to reduce their military expenditure and cause them to agree to a genuine policy of international arms limitation; or
 - b) lead the Soviet leaders to persist in their present inflated military expenditure only at the expense of consumer demands, which could spark serious internal and social unrest. That could gather momentum and link up with nationalist discontent in a number of non-Russian republics. That in its turn could force the regime drastically to modify its policies.

2. Soviet economic difficulties in future will derive from:
 - a) an inefficient agriculture which leaves the USSR dependent on the import of foodstuffs;
 - b) the diminishing rate of growth of Soviet industry;
 - c) labour problems aggravated by ethnic imbalances;
 - d) the over-centralized and apparently irremediable planning system; and
 - e) the possibility that the Soviet Union will experience a medium-term shortage of oil. The East European satellites are already in difficulties over supplies

of energy. Some (Romania, Hungary especially) are already importing oil from the Middle East. The situation in Poland may make coal a less promising alternative power source.

3. The Soviet Union is also committed to three, not easily reconcilable, courses, none of which it can discard lightly, first, military expansion, both (a) continuing build up of Soviet military power, and (b) political expansion abroad using military means where appropriate; second, satisfaction of consumer demand; and, third, the survival in power of the present ruling class.
4. The Soviet economy has been shown by several studies* to have survived mainly as a result of its exploitation of Western technology. This is particularly true of the military field. The persistent Soviet interest in the maintenance of detente in the 1970s can be explained partly, at least, by the economic advantages which the Soviet leaders see as deriving from the policy.
5. Western exports to the Soviet Union have also been of direct benefit to the Soviet military machine. Examples are:-
 - the computer industry; precision grinding;
 - petrochemical and chemicals; steel welding;
 - advanced electronics; and, lasers.

* See in particular Anthony Sutton's Western and Soviet Economic Development (3 vols. Hoover Institution 1968, 1971 and 1973).

6. Cultural exchanges are more difficult to evaluate. For those in privileged positions in the Soviet Union, withdrawal of Western visits and access to Western consumer goods would deprive the authorities of an important source of patronage. On the other hand, Western visits to Russia do give essential information and Soviet visits to the West offer dissident members of delegations, cultural groups or tourists a chance of escape. Both provide a constant indication to delegations and other visitors of the infirmity of the Soviet system.
7. The economic preponderance of the industrialized West over the Warsaw Pact has never been put to the use in the defence of the free world. Popular sentiment in Eastern Europe is widely convinced of the superiority of Western technology. Recent statements by spokesmen of the Reagan administration suggest that this may be an appropriate time to put forward policies which implicitly or explicitly recognise this. *
8. A concerted effort by the Western world such as is here suggested could achieve great results. But that concerted effort will be very difficult to secure. General sanctions have never as yet worked. COCOM has not been fully effective. President Carter's policy of technological boycott after Afghanistan did not fare very well either.

* See statement by Lawrence Brady in an interview with Jon Schaffer (ICA, US Embassy, October 1, 1981)

His grain embargo failed too, because it was circumvented or not accepted by many, and subsequently abandoned.

9. In general, Western Governments would not accept plans for a 'forward' foreign economic policy unless their public opinion were aroused. It seems possible that the developing crisis in Poland may offer now an appropriate pretext. Public opinion in the West is however illogical: that illogicality would have to be taken into account. While the EEC continues to sell cheap butter to Russia, sanctions might not be credible. Western businessmen would not accept an embargo which was not enshrined in law. These policies can only be expected to succeed if Governments make a sustained and determined effort to educate their public opinions and the business community in particular. The continuing atrocities in Afghanistan, in defiance of UN resolutions, should be dwelt upon as well as Poland.

10. It would be necessary to make first a careful study of:-
- a) the specific items which the Soviet Union imports and which are of military value (beyond those already covered by COCOM);
 - b) the identity of the main producers;
 - c) the opportunities whereby a ban could be circumvented (and where similar embargoes have been circumvented in the past);

- d) the routes which goods take to the USSR.
and
 - e) the extremely complicated matter of seeking to restrain commercial links with the Soviet Union while maintaining a helpful face towards the countries of Eastern Europe.
11. Any policy of banning military transfers more effectively than is done at the moment would have to take careful account of all Soviet allies and associates, (i.e. Cuba, South Yemen, Vietnam, etc.) as well as 'Western orientated' but formally neutral countries such as Sweden, Switzerland or Austria which produce high technology and whose entrepreneurs often wish to sell regardless of the consequences.
12. The possible loss of employment at home in the West if large Soviet deals were to be turned down might at first sight seem a delicate factor. One estimate is that 300,000 jobs in Western Europe, 30,000 in the US, depend on trade with the Soviet bloc. But the supply of technology to Soviet enterprises in return for a share in their products could likewise lead to unemployment in the West. Cheap labour costs in the USSR mean that some products of those enterprises can undercut the Western equivalent.
13. It may be noticed that in 1978 the USA spent less than 6% of its GNP on military expenditure; the Soviet Union

* See the article by G. Agnelli in Foreign Affairs, July 1980

between 13% and 16%. With an overstretched economy, any effort by the Soviet Union to increase this to maintain its current lead over the US could have serious domestic consequences.

14. Any recommendations on policy must bear in mind that the prize is great. A diminution of Soviet military strength is the precondition both of the penetration of Western ideals in Russia and for removing the Soviet threat to the outside world.
15. There are four things in a scale of economic sanctions which might be considered:
 - a) A policy aimed at depriving the Soviet Union of military equipment such as might be carried out by a strengthened COCOM - strengthened as regards effectiveness, as regards items covered, and (crucially important) as regards countries collaborating;* this should include an effort at restricting or at least reducing the publication of news of useful processes by governments in official journals and demonstrations by technicians of such processes;
 - b) a policy aimed at seeking to cover all fuel, equipment and hardware which, even indirectly, affect Soviet military preparedness - excluding food but

*N.B. The interview referred to as footnote to para 7 suggests that this may be underway.

including credits, technical assistance for oil exploration and oil exploitation itself;

- c) a policy aimed at food, and the Soviet standard of living generally. It would be possible surely for COCOM to buy and if necessary store grain and other foodstuffs in countries where an embargo would otherwise cause local economic distress.

(The EEC by its 'target price' policy is a precedent)
The recent agreements between the Federal Republic of Germany and the Soviet Union on the supply of gas would have to be considered at this stage;

- d) luxury goods, artistic and other visits.

- 16. A general ban (to be known here as (e)) would be easier to administer but would be likely to be defied in time of peace. Though some of us would like to see that policy enacted in present circumstances, none of us think it would be effective. It should not be carried out unless it becomes obvious that it would be effective.

RECOMMENDATION

- 17. We think that both policies (a) and (b) in Paragraph 15, should be prepared; (a) should be instituted as soon as possible. Considerable pressure should be brought on Western states NOT in COCOM to adhere. This might require steps to make clear the consistent hostility of the USSR to those states in the long run, (b) should be prepared to be implemented in the case of a new specific act of aggression by the USSR. If there were to be success

in relation to these moves, then the third policy, (c), could be threatened as a 'linkage' demand - for example for human rights for the peoples of the Soviet bloc. (d) could be reserved for later. A high EEC tax on the export of consumer goods to the USSR might also be considered.